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E(80) 29th Meeting

COPY NO 56

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
MONDAY 4 AUGUST 1980 at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon John Biffen MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Lord Hailsham
Lord Chancellor
(Item 1)

The Rt Hon Francis Pym MP
Secretary of State for Defence
(Item 1)

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal
(Items 1-4)

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Humphrey Atkins MP
Secretary of State for
Northern Ireland
(Items 1 and 2)

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services
(Item 1)

The Rt Hon Norman St John-Stevas MP
Chancellor of the Duchy of Lancaster
(Item 1)

The Rt Hon Mark Carlisle MP
Secretary of State for Education and Science
(Item 1)

The Rt Hon Angus Maude MP
Paymaster General
(Item 1)

The Rt Hon Sir Michael Havers QC MP
Attorney General
(Items 1 and 2)

The Rt Hon Lord Mackay of Cla
Lord Advocate
(Item 1)

The Rt Hon Norman Fowler MP
Minister of Transport
(Item 1)

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treas

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant (Items 1, 3-5)
Mr M D M Franklin (Item 2)
Mr D J L Moore (Items 1, 3-5)
Mr R D Horne (Item 2)

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1. TEACHERS' PAY

The Committee considered minutes to the Prime Minister dated 31 July from the Secretary of State for Education and Science and dated 1 August from the Attorney General and from the Lord Advocate. Their discussion and conclusions reached are recorded separately.

2. AID FOR THE FISHING INDUSTRY

The Committee considered a memorandum by the Minister of Agriculture, Fisheries and Food and the Secretary of State for Scotland (E(80) 82) proposing further financial aid to the fishing industry.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the financial position of the fishing industry had been deteriorating since the beginning of the year because of low first-hand prices for fish, the high exchange rate, and a high level of imports. In March the Government had agreed to a request from the fishing industry for aid of £3 million to see it through until the end of September, by which time it had been hoped that progress with the Common Fisheries Policy (CFP) would enable the industry to plan for its future with greater confidence. But progress with the CFP had been slow and the strength of sterling had sucked in more cheap imports, leading to a further deterioration in the position. The industry had asked for new aid amounting to £35 million. The Secretary of State for Scotland and he proposed £15 million to run until the end of December 1980, the date by which the Council of Ministers had committed itself to complete the CFP negotiations. This was in his judgment the lowest figure which would be politically acceptable; and some criticism from the industry that it was too little must be expected. The situation of the industry was indeed grave. The last of the long-distance vessels operating out of Fleetwood had just been laid up and there was doubt about its future as a deep-sea port. There had been large-scale demonstrations by the Scottish fishing fleet.

THE SECRETARY OF STATE FOR SCOTLAND, concurring, said that the CFP negotiations were now entering the crucial phase. The present leaders of the Scottish fishing industry were taking a helpful line but the Scottish Nationalists were attempting to outflank and depose them. It was essential to head off this threat. He believed that interim aid along the lines proposed would do it.

In discussion, the following points were made -

a. In view of the limited funds available for assistance to industry, it would be preferable to limit the amount to £10 million to last until the end of March 1981. Any additional money made available to the Fisheries Departments should also cover the £0.9 million required to enable work on the fisheries protection vessels on order from Hall Russells to proceed.

b. In the form proposed, the aid would be incompatible with the Community's rules on state aids, and the procedure suggested for notifying the aid did not meet with Community requirements. If the Commission decided to press the legal case against the aid, the European Court of Justice could order that the aid be abolished and any sums paid should be recovered; there was also the possibility of an action in domestic courts for a declaration that the aid was unlawful and void. On the other hand, Commissioner Gundelach had said that the Commission would not make trouble over the aid, and the Community partners were likely to acknowledge that help was necessary so as to facilitate constructive negotiations on the CFP. Nevertheless the aid should be presented in such a way as to minimise the risk of a challenge in law. Ideally it would have been better to present it as a structural aid under the Industry Act, but this would be premature in advance of agreement on common measures and Community finance for restructuring as part of the CFP. A further possibility would be to present the aid as a temporary employment subsidy, but it would be difficult to confine to the fishing industry a subsidy addressed to a problem shared by other industries.

c. When Commissioner Gundelach was sounded, he had mentioned the fisheries negotiations with Canada. It was not acceptable that aid to our industry, which was partly the result of larger imports, should be linked with negotiations in which Germany sought better opportunities to fish in Canadian waters in return for admitting larger quotas of Canadian fish imports into the Community. If the Germans succeeded in obtaining larger quotas of cod off Canada, it could only be as part of an overall acceptable deal on catch quotas.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that further interim aid of £15 million should be paid to the fishing industry, to cover the period up to the end of March 1981, and to include the £0.9 million required for payments on the fishery protection vessels under construction at Hall Russells. The decision to grant aid should be announced on 5 August, but there should be further consideration of how to present the detailed notification required by the Commission in such a way as to minimise the legal risk. Any attempt by the Commission to link their acquiescence in the aid proposed with an otherwise unacceptable fisheries agreement with Canada should be rejected.

The Committee -

1. Approved the granting of further aid to the fishing industry totalling £15 million (including £0.9 million for the fishery protection vessels under construction at Hall Russells), to last until 31 March 1981.

2. Invited the Minister of Agriculture, Fisheries and Food to announce the decision on 5 August and, in consultation with the Secretary of State for Scotland and the Lord Privy Seal, to consider how the detailed notification could most effectively be presented to the Commission.

3. BRITISH NATIONAL OIL CORPORATION: PRIVATE SECTOR PARTICIPATION

Previous reference: E(80) 9th Meeting, Item 2

The Committee considered a memorandum by the Secretary of State for Energy (E(80) 80) on private sector participation in the British National Oil Corporation (BNOC).

THE SECRETARY OF STATE FOR ENERGY said that developments during the year had reinforced the case for the Government retaining control and influence over oil produced on the United Kingdom continental shelf. He proposed accordingly that for the time being the trading and up-stream activities of BNOC should not be separated, as he had earlier thought would be appropriate, and that the Corporation should remain subject to Government control. To meet the Government's commitment to private participation in BNOC, he recommended that the Government should sell revenue bonds which would give holders a right to a specified proportion of BNOC's revenue from defined oil field interests. These securities should be made accessible to the widest possible spread of potential investors. He further proposed that powers should be taken to enable the Government to authorise the sale of equity shares in the Corporation at a later date if it so wished. If the Committee accepted these proposals he would arrange, in consultation with the Chancellor of the Exchequer, for officials to consult with BNOC and to put forward detailed proposals. In the meantime he recommended that there should be a short statement before the summer Recess of the Government's decision in principle.

In discussion the following points were made -

a. Since BNOC would remain fully within the public sector the proposals fell considerably short of the measures for privatisation which had been envisaged earlier. The proposals to take powers to sell equity at a later date might be helpful in allaying possible criticism of the present proposals; though equally they might arouse expectation which would remain unfulfilled.

b. Revenue bonds would bring no operational advantages to BNOC and might prove a relatively expensive source of finance for the Government. Moreover it would be important that the rights of bond holders should be clearly defined, so as to protect the Government and the BNOC from the risk of finding their own freedom of operation circumscribed by the obligations to bond holders and minimise the risk of the Government or BNOC being vulnerable to charges of acting in breach of or contrary to those rights. It would accordingly be important to work out the bond scheme in detail before any announcement was made.

THE PRIME MINISTER, summing up the discussion, said that, while the Committee were sympathetic to the objectives to be fulfilled by the proposals put forward by the Secretary of State for Energy they wished to consider in September a detailed report on the feasibility of the proposed scheme for revenue bonds, and the case for enabling powers to provide for selling shares at a later date, before coming to a final conclusion. Until they had considered that report the Secretary of State for Energy should not make any announcement of the Government's intentions.

The Committee -

Invited the Secretary of State for Energy, in consultation with the Chancellor of the Exchequer, to arrange for the preparation of a detailed report on the schemes proposed in E(80) 80 and to bring it to the Committee early in September so that final decisions could be taken.

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4. NATIONAL COAL BOARD AND CENTRAL ELECTRICITY GENERATING BOARD: 1980/81 EXTERNAL FINANCING LIMITS

The Committee considered memoranda by the Secretary of State for Energy E(80) 86 and E(80) 76.

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5. BRITISH STEEL CORPORATION: SUPPLY OF COKING COAL

The Committee considered letters of 25 and 30 July from the Private Secretary to the Secretary of State for Industry to the Private Secretary to the Prime Minister.

Their discussions and conclusions reached for these two items are recorded separately.

Cabinet Office
5 August 1980

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX
E(80) 29th Meeting Minutes, Items 1, 4 and 5
MONDAY 4 AUGUST 1980 at 10.30 am

CONFIDENTIAL

1. TEACHERS' PAY

The Committee had before them minutes to the Prime Minister dated 31 July from the Secretary of State for Education and Science and dated 1 August from the Attorney General and from the Lord Advocate.

THE ATTORNEY GENERAL said that under the Remuneration of Teachers Act 1965 the Government had either to accept the awards proposed by the arbitral body for the pay of teachers in England or Wales or to satisfy both Houses of Parliament, under the Affirmative Resolution procedure, that national economic circumstances required that effect should not be given to the recommendations. There would be no legal difficulty if those Resolutions were sought forthwith and before the Parliamentary Recess. Although the delay would attract criticism, there would be no legal difficulty if the Government were to announce shortly that they would definitely seek Resolution when Parliament reassembled, and that in the meantime they would continue to pay on the basis of the existing scales. To defer a firm decision could however open the way to action in the Courts by the teachers; and it would be ultra vires under the 1965 Act to make an interim pay increase.

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that, if the Government were to seek Parliamentary Resolutions, they should do so before the summer Recess. To wait until October, when Parliament reassembled, would be to give the teachers an opportunity to mount an effective campaign against the Government's decision.

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In discussion, the following points were made -

a. Under the terms of the 1965 Act the case for overriding the awards would have to be based firmly on national economic circumstances rather than on the arbitral body's failure to take full account of the error by the Standing Commission on Pay Comparability in their recommendations for teachers pay increases for 1979. It would however be very difficult to present such a case successfully when other broadly comparable public sector groups had been awarded similar or higher pay increases from April 1980 than were now proposed for teachers. In this context the recent settlement for industrial civil servants was particularly relevant: although the increase in earnings was only about 16.5 per cent and was within the cash limit and within the upper limit of 16.9 per cent approved by the Committee on 26 June (E(80) 22nd Meeting Minutes, Item 2), there had already been publicity for the fact that the increase in basic rates was 18 per cent, with no provision for improvements in productivity.

b. The arbitral body had proposed awards averaging 13.5 per cent in 1980-81 and 14.6 per cent in a full year compared with the 9.3 per cent recommended to them by the management side after the Standing Commission's error had been discovered. The local authorities might well complain that the Government was letting them down if it were not to seek to set aside these awards; and each 1 per cent increase in teachers' pay cost about £40 million a year. It would be necessary to answer any such criticism from local authorities by pointing out that, before the error was discovered, the local authorities had been willing to settle for 13 per cent. There could be no increase in the cash limit on the Rate Support Grant to accommodate the present awards. It would be the responsibility for the local authorities to decide how to finance them, but the Government should make clear that in its view they should do so by cuts in education expenditure and a reduction in the numbers of teachers, rather than by increasing the rates.

THE PRIME MINISTER, summing up the discussion, said that the Committee judged that in the light of recent pay settlements with other comparable public sector groups, and in particular the settlement with the industrial civil service, the Government should not seek the agreement of Parliament that national economic circumstances were such as to justify overruling the awards proposed by the arbitral body for teachers in England and Wales. While they remained of the view that the awards were too high, they reluctantly agreed that the Secretary of State for Education and Science should announce on 5 August that the Government accepted them. In doing so, he should make clear that there would be no increase in the cash limit on the Rate Support Grant on account of these awards and that, in the Government's view, the local authorities should find any further finance necessary to cover them from reductions in expenditure on education and by reducing the numbers of teachers. The reduction in local authority current expenditure on education, which the Cabinet had recently approved, would be a contribution towards this. The Secretary of State for Education and Science should also refer to his discussions with representatives of the local authorities on the revision of the 1965 Remunerations of Teachers Act to provide that, in future, decisions on the pay and conditions of service of teachers were taken together. On the separate question of university teachers' pay to which he had referred in his minute to her of 30 July, the Secretary of State should now seek the advice of the Law Officers whether he could withhold his assent to arbitration if the university authorities and the Association of University Teachers refused to accept an offer below 14.6 per cent from 1 October 1979.

The Committee -

1. Agreed that the awards proposed by the arbitral body for teachers in schools and further education in England and Wales should be accepted.

2. Invited the Secretary of State for Education and Science:

i. to announce the decision on 5 August,

ii. to circulate a draft of his statement, taking account of the points made by the Prime Minister in her summing up of their discussion, to all Members of the Cabinet,

iii. to put forward proposals as soon as possible for bringing together the determination of the pay and of the conditions of service of teachers,

iv. to seek the advice of the Law Officers on whether he could, if necessary, refuse a request for arbitration on the pay of university teachers, and to report.

3. Invited the Secretary of State for Scotland to report in due course on the proposals by the arbitral body considering the pay of teachers in Scotland.

4. NATIONAL COAL BOARD AND CENTRAL ELECTRICITY GENERATING BOARD: 1980-81 EXTERNAL FINANCING LIMITS

The Committee considered memoranda by the Secretary of State for Energy on the 1980-81 External Financing Limits (EFLs) of the National Coal Board (NCB) and the Central Electricity Generating Board (CEGB) (E(80)86) and on the implications for those EFLs of the winter fuel stock-holding of the CEGB (E(80)76).

THE SECRETARY OF STATE FOR ENERGY said that the NCB had identified savings, including some further closures, which should enable them to stay within their 1980-81 EFL of £834 million. This was on the assumption that the CEGB would stand by their agreement to take 75 million tonnes of coal provided that the price did not rise in real terms. Following reductions in their forecasts of electricity demand, however, there was a serious risk that the CEGB would breach their EFL of £187 million because of their high level of fuel stocks. Unless they were given reason to be confident that their EFL would be adjusted if necessary to allow for the level of stocks that was likely to result from their continuing to take coal deliveries under their agreement with the NCB, the CEGB would need to start to take offsetting action now, most probably by taking less coal from the NCB rather than by reducing their cheaper imports or their oil stocks. There would be major disadvantages in this. The building up of stocks in power stations was a useful insurance against the danger of interruptions of deliveries from pitheads; the agreement to take 75 million tonnes a year of NCB coal brought pressure on the NCB to control their costs so as to keep price increases within the level permitted by the agreement; and the agreement was valuable in encouraging the National Union of Mineworkers to accept a moderate pay settlement. He accordingly recommended that the CEGB should be told not to reduce their fuel purchases for power stations pending a further consideration by Ministers at the end of 1980. Since this would deny them their main opportunity to take action now to keep within their EFL, he would have to assure them that the Government would be willing to be flexible over any increase in the EFL attributable to this decision. He also wished to tell them that in no circumstances should they allow their winter peak endurance stocks to drop below six weeks.

In discussion the following points were made -

a. Without any offsetting action, and on present forecasts of sales, the CEGB could overrun their EFL by as much as £200 million; and, even if they were to take action at the end of 1980, by £100 million or more. On the other hand these increases would to some extent be offset by benefits to the EFL of the NCB; and also by the financial benefits, which were very difficult to quantify, from moderating the miners' pay settlement and from avoiding or mitigating the effects of any interruption of deliveries of coal. There might well therefore be a case for encouraging the CEGB to keep their winter peak endurance stocks to 7 or 8 weeks of average January and February consumption rather than 6 weeks.

b. Although there was a strong case for maintaining stocks for the reasons put forward by the Secretary of State for Energy, it was important that the CEGB should not be freed from the discipline of their EFL. Rather than let the position drift, it might be better to recognise the probability of an overrun by making specified but limited increases to the EFL. If necessary these adjustments could be made more than once, in the light of the position as it developed during the year.

c. The NCB should be encouraged to examine whether they could increase their revenue by selling domestic coal at reduced prices rather than by putting it to stock. It might also be preferable for the NCB to increase its coal exports if, as seemed likely, the losses they would incur would be lower than the cost of stocking surplus coal. The sale overseas of coal held in stock by the CEGB at Rotterdam might also be considered at the appropriate time as a means of reducing their need for finance.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that the Secretary of State for Energy should tell the CEGB that they should not reduce their purchases of fuel for power stations between now and the end of November. The Committee would then review the position. In the

meantime, the Committee wished to maintain the discipline of the EFL on the CEGB, while recognising that the decision on coal purchases and stocks could well mean that the EFL would have to be increased in due course. The Secretary of State for Energy should bring forward proposals to the Committee in September for a revised EFL for the electricity industry which took specific account of the costs to the CEGB of continuing to take deliveries of coal in accordance with their agreement with the CEGB.

The Committee -

Invited the Secretary of State for Energy -

1. To tell the Central Electricity Generating Board not to reduce fuel deliveries to power stations between now and the end of November below the level provided for in their agreement with the National Coal Board, and in no circumstances to allow winter peak endurance to drop below 6 weeks, and preferably 7 to 8 weeks.

2. To bring forward proposals, for discussion by the Committee in September, for a specific amendment to the External Financing Limit for the electricity supply industry in England and Wales to take account of this decision.

3. To review the electricity supply industry's External Financing Limit, and the level of coal deliveries from the National Coal Board to the Central Electricity Generating Board, in December.

4. To invite the National Coal Board to consider the case for increasing their revenue by selling domestic coal at reduced prices, rather than stocking it, and to report.

5. BRITISH STEEL CORPORATION: SUPPLY OF COKING COAL

Previous Reference: E(80) 28th Meeting, Item 3

The Committee had before them letters dated 25 and 30 July from the Private Secretary to the Secretary of State for Industry to the Private Secretary to the Prime Minister.

THE SECRETARY OF STATE FOR INDUSTRY said that the Chairman of the British Steel Corporation (BSC) had written to the Chairman of the National Coal Board (NCB) to inform him that the BSC could not pay between £27 million and £37 million more in 1981 for coking coal from the NCB than for imported coal. Negotiations between the two industries were now taking place. In accordance with the Government's wishes, the Chairman of BSC had stressed the importance of keeping these negotiations confidential for the time being. It was however likely that he would insist on concluding them, and making a statement, within about ten days. The Secretary of State for Industry considered that the right course was for the Government to let the two chairmen negotiate on commercial terms. If they could not reach agreement, it would in his view be necessary to let the BSC import coking coal.

THE SECRETARY OF STATE FOR ENERGY said that he agreed that the chairmen should continue to negotiate. The arguments were not all on the one side. NCB bought substantial quantities of steel from BSC, and were not satisfied with its price and quality. If the outcome were to be unfavourable to the NCB, the financial effect would be in 1981-82 rather than in the present year.

THE PRIME MINISTER, summing up a short discussion, said that the Committee agreed that the two chairmen should continue to negotiate. The Secretaries of State for Energy and for Industry should report the outcome before either chairman made a public statement.

The Committee -

1. Agreed that the chairmen of the British Steel Corporation and of the National Coal Board should continue to negotiate over the price of coking coal.

2. Invited the Secretaries of State for Industry and for Energy to report to them the outcome of these negotiations, and to do so before either chairman made a public statement.

Cabinet Office

5 August 1980